

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

Rate Adjustment Due to Extraordinary  
or Exceptional Circumstances

Docket No. R2013-11

PRESIDING OFFICER'S INFORMATION REQUEST NO. 5

(Issued October 29, 2013)

To clarify the Postal Service request for rate adjustments due to extraordinary or exceptional circumstances, filed September 26, 2013, the Postal Service is requested to provide written responses to the following questions. Answers should be provided no later than November 5, 2013.

1. In Docket No. N2012-1 (Mail processing network rationalization), the Postal Service projected that the changes to its mail processing network contemplated in that proceeding would reduce mail volumes by approximately 2.88 billion pieces. It projected a 1.4 percent decline in First-Class Presort volume alone. See Docket No. N2012-1, USPS-T12-22 & Tr. 3/772 (Whiteman). Please explain how the volume forecasting methodology described by witness Thress takes into account volume declines attributable to Network Rationalization.
2. The Statement of Stephen J. Nickerson asserts that the "contribution loss due to volume declines caused by the recession during the 2008-2012 period is over \$6.6 billion. This represents a continuing loss of annual volume, revenue and contribution." Statement of Stephen J. Nickerson at 2, footnote omitted. The Postal Service proposes to increase rates to recover a net \$2.36 billion in contribution.

- (a) What does “continuing loss of annual volume, revenue and contribution” mean?
  - (b) Does the Postal Service intend to “bank” the \$3.64 billion in contribution not requested in this case, possibly to be requested in a future request? If not, is the net \$2.36 billion the full and final amount of net contribution that it will ever seek to obtain in an exigency case from volume losses over the 2008-2012 period due to the recession of 2008-2009?
  - (c) Does the Postal Service anticipate that it would be able to seek exigent rate increases in the future if it concludes that mail volumes in 2013 and beyond reduced due to the 2008-2009 recession?
- 3. In preparing the volume forecasts presented by the Statement of Mr. Thress, did the Postal Service obtain input from mailers regarding their mailing decisions and the effect of various factors on their mail volumes through any surveys, focus groups, mailer interviews, or similar structure research? If so, please provide copies of any such interview scripts and aggregated responses from mailers on an aggregated basis. If not, please explain why not.
- 4. Library Reference USPS-LR-R2010-4R-10, ExigentImpact, Tab “Volumes” shows 2012 “Starting Volume” of First-Class workshared letters of 41,516.422 billion (Cell B54). Please reconcile that figure with the FY 2011 volume for First-Class Presort Letters of 41,740.735 as reported in Table VII-1 of the Commission’s Annual Compliance Determination for FY 2011.
- 5. On different occasions in recent years, the Postal Service has attributed the bulk of its volume losses to different factors. In March 2010, it attributed the long-term volume decline of First-Class Mail primarily to diversion, based on extensive research and analysis by Boston Consulting Group. It essentially reiterated that view in its “Plan to Profitability” issued in February 2012. In this proceeding, it

claims that the recession is responsible for the largest share of First-Class mail volume declines during the same years. Library Reference USPS-R2010-4R-10 attributes volume losses in First-Class workshared letters in 2008, 2009, and 2010, to (among other factors) diversion and the recession as follows (in 000,000s):

	Diversion	Rec/Diversion (Col. W)
2008	818.171	1,459.318
2009	787.172	2,131.748
2010	742.751	2,131.748

Tab Volume, Sources of Change by Year, 2001 - 2012, at Forecast Level. These numbers imply that the recession had a much larger effect on First-Class workshared letter volumes than did diversion.

- (a) Please confirm that the column labeled “Rec/Diversion” is intended to refer to volume changes that the Postal Service attributes to diversion that were accelerated by the recession. If not, please explain what the term “Rec/Diversion” means.
- (b) Please reconcile Library Reference USPS-R2010-4R-10, which attributes the lion’s share of volume declines to the recession, to the following statements issued in March 2010 and February 2012 by the Postal Service that attributed volume declines primarily to diversion and changes in mailer behavior and not to the recession: On March 10, 2010, the Postal Service released a document entitled “Ensuring a Viable Postal Service for America: An Action Plan for the Future.” On page 4, in a discussion of its volume declines, the Postal Service stated:

While the recession accelerated the volume decline, its primary cause is a fundamental and permanent change in mail use by households and businesses. Hardcopy communication of all types continues to shift to digital alternatives. More people are paying bills and transacting business online.”

On February 16, 2012, the Postal Service released a document entitled “Plan To Profitability: 5 Year Business Plan.” On page 5 of that document, the Postal Service stated in the heading to that page:

“Electronic Diversion is the Primary Driver of First-Class Mail Volume Decline”

Continuing on the same page, the Postal Service further said:

“Diversion of communication and commerce to electronic channels is a principal contributor to declining First-Class Mail volumes”; and

“Diversion reflects a permanent secular shift in customer behavior and is more pronounced during periods of economic weakness.”

- (c) Please reconcile Library References filed in Docket No. R2013-11 with the analysis conducted by Boston Consulting Group, released by the Postal Service on March 2, 2010, which at page 9 (of BCG’s detailed analysis) identified a number of drivers of mail volumes over the following ten years. The effect of the recession was not listed among the 7 factors affecting First-Class Mail volume or the 7 factors affecting Standard Mail. For example, with respect to First-Class Mail, the BCG analysis cited the following factors as drivers that would negatively affect volume:
- Increase in online presentment and bill pay;
  - Increased usage of autopay;
  - Increase in mobile presentment; and
  - Diversion to emerging hybrid mail options.

6. Did the Postal Service conduct any empirical research or data-driven analysis of the effect on mail volume of the cumulative rate increases implementing market dominant price adjustments filed following the 2008-2009 recession? Please provide all such research or analyses.

7. Did the Postal Service use estimates of price elasticity of demand directly for selecting the rates proposed in the Docket No. R2013-11? If so, please explain how price elasticities were used in determining what rates to propose. If not, please explain why not.
8. What was the basis for selecting an average exigency increase of about 4.3 percent; that is, was it designed to generate a targeted revenue amount, restrain volume losses to a certain amount, recover a targeted percentage of lost contribution, or some other factor or factors? Please discuss.
9. Please refer to Library References USPS-R2010-4R-9, RCFDATA.xlsx, tab “Public” and USPS-R2010-4R-10, ExigentImpact.xlsx, tab “Volume,” cells S83:S93 (which contain FY 2002 through FY 2012 volumes for First-Class International Letters, Cards, & Flats). For FY 2009 – 2012, the annual First-Class International Letters, Cards, & Flats in ExigentImpact.xlsx can be calculated by adding the values for the corresponding year in column Y of “Public” in RCFDATA.xlsx. For FY 2002 – 2008, this is not so. For example, in FY 2008, the sum of cells Y154:Y157 in the worksheet “Public” in RCFDATA.xlsx is 375.693; the value in cell S89 of “Volume” in ExigentImpact.xlsx for FY 2008 is 406.248.
  - (a) Please identify the cells in RCFDATA.xlsx where values can sum to generate each of the values in S83 to S89 of the “Volume” tab of ExigentImpact.xlsx.
  - (b) Please identify the cells from RCFDATA.xlsx to sum to generate First-Class International Letters, Cards, and Flats volume (based upon the same definition of this product as in the “Volume” tab of ExigentImpact.xlsx) for each year from FY 1970 to FY 2001.

- (c) Please provide First-Class International Letters, Cards & Flats volumes (based upon the same definition of this product as in the “Volume” tab of ExigentImpact.xlsx) for each year from FY 1970 to FY 2001.
- (d) If any referenced spreadsheet is in error, please provide a corrected version.

By the Chairman.

Ruth Y. Goldway  
Presiding Officer